



August 2016

# DEFENSE BUDGET

## DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations

# GAO Highlights

Highlights of [GAO-16-537](#), a report to congressional committees

## Why GAO Did This Study

O&M is DOD's largest category of appropriations and constitutes about 43 percent of the President's total request for DOD of \$582.7 billion in fiscal year 2017. The President requested \$251 billion for DOD's total O&M funding, which included approximately \$206 billion for O&M base and \$45 billion for O&M OCO.

Senate Report 114-49 included a provision for GAO to review the effects of budgetary constraints on DOD's base funding within its O&M appropriations accounts. This report (1) identifies the trends in enacted funding for DOD's O&M base appropriations accounts since fiscal year 2009; (2) describes how much O&M funding DOD has transferred or reprogrammed, and the effect of this realignment on base obligations; and (3) evaluates the extent to which DOD reported to Congress its O&M obligations for its base and OCO budgets. GAO analyzed DOD's O&M budget justification materials and execution reports since 2009 and interviewed DOD officials.

## What GAO Recommends

To assist Congress in its oversight of the O&M budget, GAO recommends that DOD revise its guidance on preparing budget materials and execution reports to require the addition of O&M base obligations for each account. DOD did not concur, citing the inability of its current financial systems to easily distinguish base obligations. GAO believes the recommendation is valid as discussed in the report.

View [GAO-16-537](#). For more information, contact Andrew J. Von Ah at (213) 830-1011 or [vonaha@gao.gov](mailto:vonaha@gao.gov).

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## DEFENSE BUDGET

### DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations

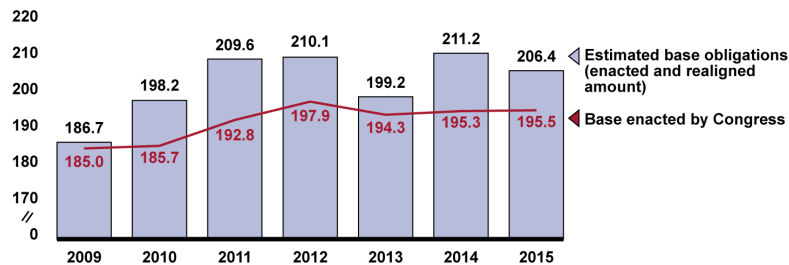
## What GAO Found

Congress enacted funding for the Department of Defense's (DOD) Operation and Maintenance (O&M) into multiple base appropriations accounts, which are used to pay for day-to-day programs and activities. This enacted funding generally has increased each year since fiscal year 2009, with the exception of fiscal year 2013, when sequestration reduced funding for O&M base.

GAO found that DOD used its authorities to realign about \$146.9 billion of its funding from fiscal years 2009 through 2015 (that is, moving funds through transfers from one account to another, and reprogrammings within an account). During GAO's review, the effects of such realignments on base obligations were not readily apparent because DOD did not report its O&M base obligations to Congress separately from its O&M overseas contingency operations (OCO) obligations used to support war-related programs and activities. GAO estimated O&M base obligations since fiscal year 2009 and found that DOD's realignment of funds led to its O&M base obligations exceeding O&M base enacted amounts in each fiscal year and by an annual average of 5.6 percent (see figure).

**Enacted and GAO Estimated Obligation Amounts for the Department of Defense's Operation and Maintenance Base Accounts, Fiscal Years 2009–2015**

Nominal dollars in billions



Source: GAO analysis of Department of Defense data. | GAO-16-537

DOD reported to Congress a combination of O&M base and O&M OCO obligations in its budget justification materials and execution reports, but it did not separately report its O&M base obligations by account for each of its multiple O&M base appropriations. These materials and reports are key documents that help Congress appropriate, conduct oversight of, and provide control over funds. The Senate Appropriations Committee has expressed concern in its report accompanying a bill for DOD's fiscal year 2015 appropriations that it does not have a clear understanding of OCO funding used to support DOD's day-to-day programs and activities. The services track O&M obligations by base and OCO appropriations for OCO reporting purposes, but DOD's financial management regulations do not require it to congressionally report O&M base obligations separately for each account in its budget justification materials and execution reports. By revising its guidance to require congressional reporting on O&M base obligations for each account in these materials and reports, DOD could provide complete information to assist Congress in better understanding and overseeing DOD's full funding needs for O&M base.

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## Abbreviations

DOD	Department of Defense
O&M	Operation and Maintenance
OCO	Overseas Contingency Operations
OUSD	Office of the Under Secretary of Defense

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August 16, 2016

The Honorable John McCain  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Mac Thornberry  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Department of Defense (DOD), like other federal agencies, operates within congressionally set appropriation levels that require prioritizing expenses and investments to balance its strategic and operational activities and to mitigate risks. As DOD's largest single category of appropriations, operation and maintenance (O&M) base funding<sup>1</sup> is used to pay for day-to-day programs and activities—including operating support for installations, training and education, civilian personnel, maintenance, contracted services, and defense health—some of which are directly linked to military readiness.<sup>2</sup> In addition, Congress appropriates O&M overseas contingency operations (OCO) funding to support contingency and other operations.<sup>3</sup> In committee reports accompanying defense appropriation acts, the House and Senate appropriations committees have on several occasions expressed concern

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<sup>1</sup>Congress appropriates O&M base funding in Title II (Operation and Maintenance) and Title VI (Other Department of Defense) of the annual defense appropriations acts.

<sup>2</sup>Readiness is the ability of military forces to fight and meet the demands of assigned missions. The type of spending in O&M accounts that is directly linked to readiness for Army, Navy, Marine Corps, Air Force, Army and Air National Guard, and Reserve forces includes unit training and maintaining the equipment of units that may deploy.

<sup>3</sup>Prior to fiscal year 2010, funding for war-related activities was generally provided in supplemental appropriations acts. In fiscal year 2010 Congress established Title IX in annual defense appropriations acts to provide for OCO-related activities.

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that DOD relies on a portion of its OCO appropriations to fund O&M programs and activities that began in response to contingency operations but have continued after these operations ended.<sup>4</sup> In the budget for fiscal year 2017, the President requested \$251 billion for DOD's total O&M funding, which included approximately \$206 billion for O&M base and \$45 billion for O&M OCO. This \$251 billion request constituted 43 percent of the President's total request for DOD of \$582.7 billion for fiscal year 2017.

Senate Report 114-49 accompanying, a proposed version of the National Defense Authorization Act for Fiscal Year 2016, includes a provision for GAO to evaluate the effects of budgetary constraints on DOD's available base funding within the O&M appropriations accounts.<sup>5</sup> This report (1) identifies the trends in enacted and planned funding for DOD's O&M base appropriations since fiscal year 2009; (2) describes the amount of O&M funding DOD has transferred or reprogrammed, and the effect of this realignment on O&M base obligations; and (3) evaluates the extent to which DOD reported to Congress its O&M obligations for its base and OCO budgets.

To identify the trends in enacted and planned funding for DOD's O&M accounts since fiscal year 2009, we analyzed data on enacted and other available base funding from DOD's budget materials.<sup>6</sup> We began with fiscal year 2009 because it was the first year after the surge in both Iraq and Afghanistan and would provide us with a 7-year period of data. All enacted funding amounts are in nominal dollars as presented in the budget materials. In addition, we interviewed officials from the Office of the Under Secretary of Defense (OUSD) Comptroller and the military services' financial management offices about O&M base funding. To

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<sup>4</sup>An example of an enduring cost would be maintaining residual headquarters staff at U.S. Central Command in Qatar to train, advise, and assist as missions have evolved from contingency to ongoing activities.

<sup>5</sup>Subsequently enacted as the National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92 (Nov. 25, 2015).

<sup>6</sup>We use the term "enacted" to refer to DOD's authorized adjustment of amounts appropriated to reflect designations by Congress at the appropriations account's activity level. Congressional designations appear in an appropriations act's accompanying conference report or explanatory statement. The enacted amount reflects undistributed adjustments, which are additions or cuts made by Congress to the appropriation's total amount that are not designated to a particular activity level; the effect of general provisions; or other congressional directions as articulated in statute.

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identify how DOD's base funding plans for O&M compared to its enacted funding levels since fiscal year 2009, we analyzed summary data from DOD's O&M 5-year funding plans for O&M to determine the differences. We verified the accuracy of data that we obtained with OUSD Comptroller and Cost Assessment and Program Evaluation officials and determined that the data were sufficiently reliable for the purposes of this audit with attribution to DOD and the source documents.

To describe the amount of O&M funding DOD has transferred or reprogrammed and the effect of this realignment on O&M base obligations since 2009, we analyzed data from DOD's execution reports, budget materials, and financial management officials from the military services.<sup>7</sup> Our analysis goes through fiscal year 2015, as this was the last full year of data available during our review. We also interviewed OUSD Comptroller and military service financial management officials to understand DOD's process for transferring and reprogramming funds, including congressional notification. We verified the accuracy of the data that we obtained with OUSD Comptroller officials and determined that the data were sufficiently reliable for the purposes of this audit with attribution to DOD and the source documents. To understand the differences between DOD's O&M base obligations and the amount Congress designated for O&M base programs and activities, we estimated O&M base obligations because DOD does not report this information separately from O&M OCO obligations in its budget justification materials or execution reports as discussed later in the report. To do this, we compiled and summed O&M OCO obligations reported in the OCO budget justification books for each O&M base account and subtracted this amount from total O&M obligations reported in DOD's O&M base budget exhibits at the account level. We took similar steps to estimate base obligations by each subactivity group within the military services' O&M base accounts. Next, we compared enacted amounts with our estimated total O&M base obligations. We grouped the military service-level subactivity groups into 11 categories of similar activities and compared the congressional designations for the 11 categories to estimated base

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<sup>7</sup>DOD is authorized by statute to transfer appropriated amounts from one appropriations account to another. DOD may also reprogram designated amounts within an appropriation without additional statutory authority. Nevertheless, reprogramming often involves some form of notification to the congressional appropriations committees. DOD may spend up to these realigned amounts.

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obligations for the corresponding categories.<sup>8</sup> We verified our data with OUSD Comptroller and military service financial management officials and determined that the data were sufficiently reliable with attribution to DOD and source documents.

To evaluate the extent to which DOD reported O&M base and OCO obligations to Congress, we reviewed the information available in DOD's budget justification materials and execution reports in light of federal internal control and accounting standards that outline how information should be recorded and communicated to management and others.<sup>9</sup> For more information on our scope and methodology, see appendix I.

We conducted this performance audit from August 2015 to August 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Overview of DOD's O&M Budget

DOD identifies 32 accounts for fiscal year 2017 under the appropriation category of O&M, including both base and OCO funding. Among the military services, each of their components receives its own O&M appropriations and has corresponding accounts—active (Army, Navy, Marine Corps, and Air Force), reserve (Army Reserve, Navy Reserve, Marine Corps Reserve, and Air Force Reserve), and National Guard

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<sup>8</sup>Congressionally designated amounts are not binding unless they are also incorporated directly or by reference into an appropriations act or other statute.

<sup>9</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999). These standards were in effect prior to fiscal year 2016 and cover the time period of DOD's data. The standards were subsequently updated. The updated standards went into effect on October 1, 2015. See GAO, *Standards for Internal Control in the Federal Government*, GA0-14-704G (Washington, D.C.: Sept. 10, 2014). See Federal Accounting Standards Advisory Board, *The FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts (June 30, 2015).



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(Army National Guard and Air National Guard). Additionally, there are O&M accounts for defense-wide and other DOD programs, such as the defense health program.

In support of DOD's budget request included in the annual President's budget, DOD financial management officials prepare separate congressional budget justification materials by account for O&M base and O&M OCO. Each set of O&M budget justification materials is divided first into budget activities, such as operating forces and mobilization for the military services' O&M accounts. For some O&M accounts, the budget activities are then divided into activity groups. For example, the defense-wide budget justification materials for O&M are divided by activity group, which represent a defense agency. For other O&M accounts, the budget activities are further divided into subactivity groups. For example, the military service justification materials for O&M are divided first into various activity groups, such as installation support and weapons support, and then into subactivity groups, such as depot maintenance and operating support for installations.

DOD submits to Congress annual budget justification materials that provide details at the budget activity, activity group, or subactivity group level. Congress separately appropriates amounts for O&M base and O&M OCO activities into existing O&M base accounts. Congress directs how O&M funds are to be spent by designating specific amounts at the activity level in conference reports or explanatory statements accompanying annual appropriations acts. DOD financial management officials execute both O&M base and O&M OCO funds from the base O&M account. For example, Army financial management officials execute both O&M base funding and O&M OCO funding from the Army base O&M account.

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## DOD's Five-Year Funding Plan

DOD conducts an annual process for determining its budget request and allocating resources. This includes developing a 5-year funding plan by appropriation that identifies the immediate budget priorities and future projections for the next 4 fiscal years, and is called the Future Years Defense Program.<sup>10</sup> The Future Years Defense Program reflects

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<sup>10</sup>For additional information on DOD's planning, programming, budgeting, and execution process, see GAO, *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, [GAO-16-119](#) (Washington, D.C.: Feb 18, 2016).

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decisions made in DOD's annual budget process and represents estimated funding that the President requests from Congress for the current budget year and at least the 4 fiscal years following it. In 1987, Congress directed the Secretary of Defense to submit the 5-year funding plan, in part, to establish a mechanism to help inform DOD and Congress on current and planned funding needs as decisions are made.<sup>11</sup> The 5-year funding plans are specific to DOD's total base funding and do not include OCO funding.<sup>12</sup>

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## Transfers and Reprogramming

Provisions of annual defense appropriations and authorization acts provide DOD with authority to transfer funds. DOD can realign funds (1) between appropriations accounts through transfers and (2) within an account's budget activity from the same appropriations account through reprogrammings. While transfers require statutory authority, DOD officials may also realign, or reprogram, O&M base funds within an appropriations account's budget activity as part of their duty to manage their funds and do not require statutory authority to do so. For both transfers and reprogrammings, Congress requires notification of DOD's fiscal year baseline for application of reprogramming and transfer authorities prior to funds becoming available for reprogramming or transfer. Further, if a transfer or reprogramming exceeds threshold amounts established by Congress, prior approval of a congressional committee is required.<sup>13</sup> For example, effective for fiscal year 2015, the basic reprogramming threshold for O&M that requires DOD to notify Congress in writing was a cumulative increase or decrease of \$15 million. However, the military services can transfer or reprogram funds that are below threshold amounts between budget activities within O&M base accounts without requiring written congressional approval.

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<sup>11</sup>National Defense Authorization Act for Fiscal Years 1988 and 1989, Pub. L. No. 100-180, title XII, part A, § 1203 (Dec. 4, 1987), classified at 10 U.S.C. § 221(a).

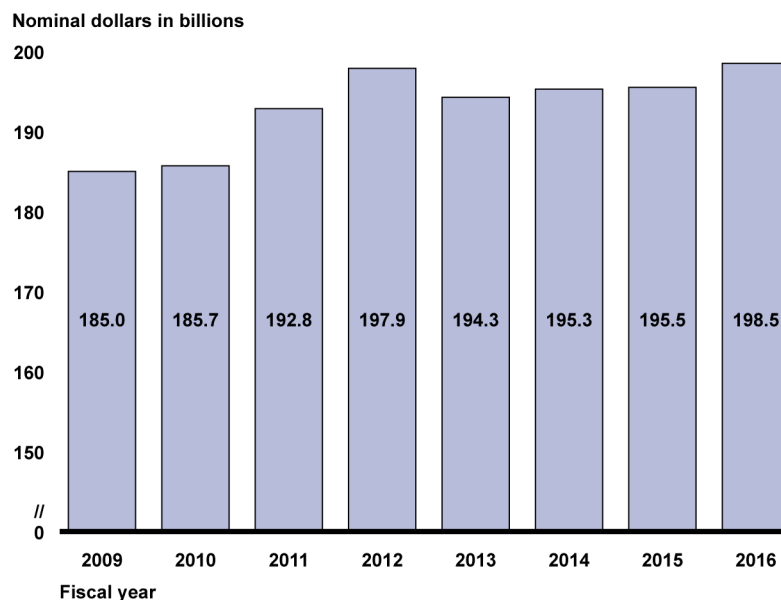
<sup>12</sup>DOD has a separate planning process for the annual budget request for OCO funding.

<sup>13</sup>Threshold amounts for reprogramming actions are established by Congress in the explanatory statements or conference reports accompanying DOD appropriations acts. DOD incorporates threshold amounts into its financial management regulation.

## DOD's Enacted Funding for O&M Base Generally Increased Each Fiscal Year since 2009 But Was Less Than DOD Had Planned, and Congress Made Additional O&M Funding Available

DOD's enacted funding for O&M base has generally increased each year since fiscal year 2009, with the exception of fiscal year 2013. Enacted funding, set by Congress, establishes how much the department can obligate in a given fiscal year, unless the amounts are subsequently adjusted through additional congressional action or DOD's use of its authorities to transfer funds between appropriations accounts. Based on DOD's data, enacted funding for O&M base in nominal dollars increased by 7 percent from about \$185.0 billion in fiscal year 2009 to about \$198.5 billion in fiscal year 2016 (see figure 1).

**Figure 1: Department Of Defense's Enacted Funding for Operation and Maintenance Base Accounts, Fiscal Years 2009-2016**



Source: GAO analysis of Department of Defense data. | GAO-16-537

Our analysis of the budget year of DOD's 5-year funding plans for O&M base from fiscal years 2009 through 2016 found that since fiscal year 2011, DOD consistently planned for more O&M base funding than Congress enacted. The 5-year funding plans—also known as the Future Years Defense Plan—consist of a budget year (first fiscal year) and out-years (4 subsequent fiscal years beyond the budget year), and are intended to help inform Congress on current and future planned funding needs. Congress enacted more funding than DOD planned in the fiscal year 2009 budget year and the amount enacted was the same as planned in the fiscal year 2010 plan. Since 2011 the enacted amount was less than the planned amount by between 1.8 and 7.2 percent. Figure 2

provides details on DOD's funding plans and enacted amounts for O&M base.

**Figure 2: Department of Defense's Operation and Maintenance Base Accounts' Enacted and Five-Year Funding Plan Amounts, Fiscal Years 2009-2016**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Enacted</b>	\$185.0	\$185.7	\$192.8	\$197.9	\$194.3	\$195.3	\$195.5	\$198.5				
<b>2009 plan</b>	179.8	181.4	187.2	190.2	197.1							
<b>2010 plan<sup>a</sup></b>		185.7	—	—	—	—						
<b>2011 plan</b>			200.2	212.2	221.3	230.9	239.6					
<b>2012 plan</b>				204.8	215.0	221.2	228.9	233.1				
<b>2013 plan</b>					209.3	209.9	212.8	219.2	224.4			
<b>2014 plan</b>						210.2	211.9	216.9	220.7	222.3		
<b>2015 plan</b>							199.1	213.0	218.3	221.9	224.8	
<b>2016 plan</b>								209.9	216.3	222.4	226.5	230.7

Nominal dollars in billions

	Budget year
	Out-year

Source: GAO analysis of Department of Defense data. | GAO-16-537

<sup>a</sup>Department of Defense did not prepare an estimate of the 4 out-years in fiscal year 2010.

Further, between the funding plans for fiscal year 2009 and fiscal year 2015, planned O&M base funding in the out-years was adjusted downward relative to the previous year until fiscal year 2016, when it slightly increased. For example, in the fiscal year 2011 plan, DOD estimated that its planned funding in the out-years would increase by 12.9 percent (\$27.4 billion) between the first and the last out-year of the plan (fiscal years 2012-2015), but in the fiscal year 2012 plan, DOD decreased its estimate of planned funding in the out-years (fiscal years 2013-2016) as compared to the fiscal year 2011 plan by 8.4 percent (\$18.1 billion). The decrease relative to the previous year continued until the fiscal year 2016 plan when DOD adjusted its plans upward for fiscal years 2018 and 2019 from the amounts in the fiscal year 2015 plan, as shown above in figure 2.

We found that various factors influenced the changes in the out-year amounts since the fiscal year 2009 plan. For example, according to DOD documents, the 5-year plan for fiscal year 2011 reflected the defense objectives outlined in the 2010 Quadrennial Defense Review and the corresponding increase in requirements to carry out those objectives. The

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department then began to reduce its planned growth in fiscal year 2012, as compared to fiscal year 2011, according to DOD budget documents and DOD officials, based on a variety of initiatives intended to improve the efficiency of DOD's business operations by reducing excess overhead costs. In fiscal years 2013 through 2015, DOD further reduced its base O&M funding plans as it realigned its entire discretionary budget closer to expected appropriations. According to DOD documents and officials, this was achieved through a combination of continued efficiency initiatives and economic adjustments, among other reductions. However, in fiscal year 2016, DOD's funding plans did not include further reductions. According to DOD's fiscal year 2016 budget request and DOD officials, the department concluded that it could not execute its updated defense strategy at the expected appropriation level.

Congress made additional funding available to DOD's O&M base programs and activities in fiscal years 2009 through 2016. Specifically, Congress made additional funding available to DOD's O&M base in two areas: OCO funding for programs and activities requested in the base budget and OCO funding for readiness-related efforts.

- **OCO Funding for Programs and Activities Requested in the Base Budget:** In fiscal years 2009 through 2016, according to DOD's data, Congress made additional funding available by designating O&M supplemental or OCO funding to be used for certain O&M base programs and activities for which DOD had requested O&M base funding.<sup>14</sup> For example, Congress directed additional funding from fiscal years 2009 through 2016, ranging from \$405 million in fiscal year 2013 to \$9.2 billion in fiscal year 2014. According to DOD officials and budget documents, Congress gave the department the approval to transfer this OCO funding for base programs and activities.
- **OCO Funding for Readiness-Related Efforts:** In fiscal year 2015, Congress provided \$1 billion in OCO funding to be used for supporting DOD's readiness efforts. According to DOD officials, this OCO funding could be used to support O&M base programs and

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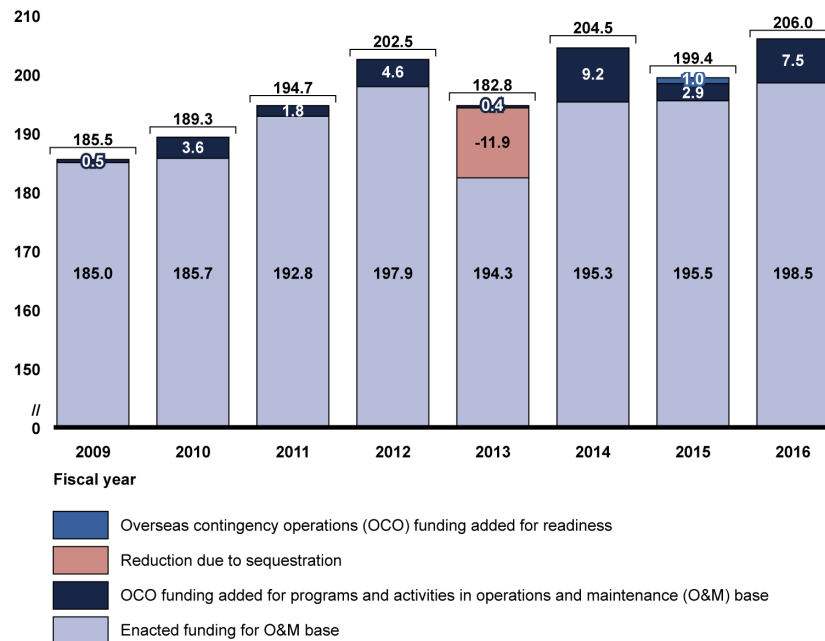
<sup>14</sup>Congress provided guidance for the use of O&M OCO funds for O&M base activities in conference reports and explanatory statements accompanying DOD's fiscal years 2010 through 2016 appropriations acts. In fiscal year 2009 Congress did not appropriate designated OCO amounts. Instead, Congress appropriated supplemental amounts to O&M base accounts.

activities that relate to readiness-related efforts, such as increased training, depot maintenance, and operations support for installations.

Conversely, the sequestration in fiscal year 2013 reduced DOD's O&M base funding when across-the-board spending reductions were applied to all nonexempt appropriations accounts across the government.<sup>15</sup> The reductions resulted in a decrease of \$11.9 billion to DOD's O&M base, to \$182.8 billion, the lowest level since fiscal year 2009. Figure 3 shows DOD's enacted funding for O&M base with changes directed by Congress and as a result of sequestration.

**Figure 3: Department of Defense's Enacted Funding for Operation and Maintenance Base Accounts with Changes Directed by Congress and as a Result of Sequestration, Fiscal Years 2009-2016**

Nominal dollars in billions



Source: GAO analysis of Department of Defense data. | GAO-16-537

<sup>15</sup>Section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985, Pub. L. No. 99-177 (1985), as amended, requires the Office of Management and Budget to calculate, and the President to order, a sequestration of non-exempt discretionary appropriations accounts when discretionary spending limits established for a particular fiscal year are exceeded. Amounts appropriated for OCO are exempt. The fiscal year 2013 sequestration was ordered on March 1, 2013.

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## DOD Has Realigned \$146.9 Billion of O&M Funding since Fiscal Year 2009

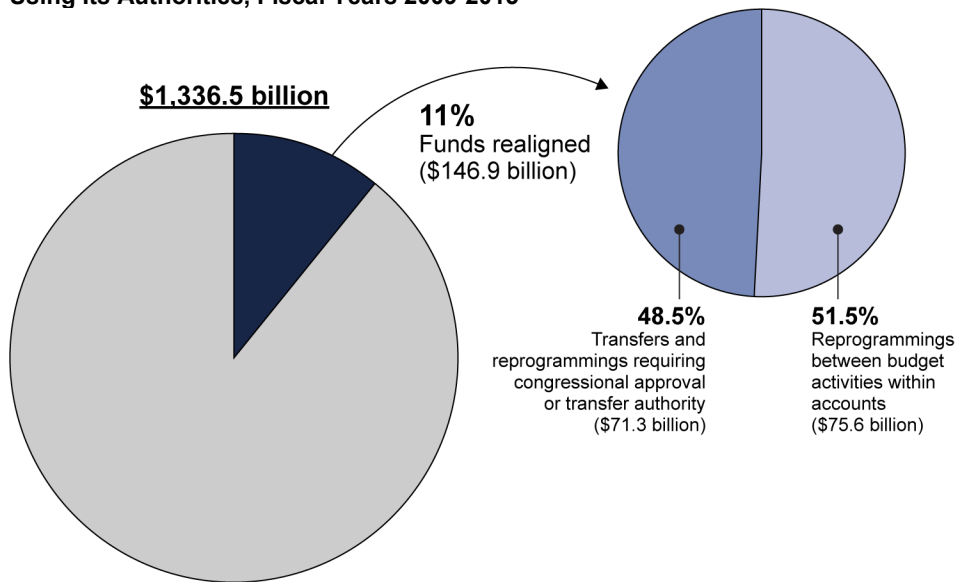
Our analysis of DOD data for the military services' and defense-wide agencies' O&M accounts—from fiscal years 2009 through 2015—found that DOD realigned \$146.9 billion by transfers between O&M base, O&M OCO, and other appropriations accounts and reprogrammings within O&M accounts. These realigned funds represented 11 percent of the \$1,336.5 billion enacted for these accounts. According to DOD and military service officials, they used existing statutory authorities to transfer (realign funds between appropriations accounts) or reprogram (realign funds from the same appropriation within an account's budget activity) O&M funding to adjust to differences in their budget year funding plans and respond to emerging requirements, such as disaster response and new contingency operations. The officials stated that this flexibility helps the department to manage risk associated with priority missions by ensuring that resources are aligned appropriately. DOD relied on legal authority<sup>16</sup> with congressional approval<sup>17</sup> where necessary to realign about \$71.3 billion (48.5 percent) of these funds from transfers between or reprogrammings within appropriations. DOD also reprogrammed about \$75.6 billion (51.5 percent) of these funds between budget activities within accounts in amounts that did not require prior congressional approval (see figure 4).

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<sup>16</sup>In the annual defense appropriations act, Congress provides DOD with authority to transfer funds between appropriations accounts. In addition, Congress appropriates funds to DOD for O&M activities in accounts not related to the military services that are intended in the year of execution to be transferred to and executed out of O&M accounts. Such accounts include Environmental Restoration, Drug Interdiction and Counterdrug Activities, and Foreign Currency Fluctuations. DOD may transfer funds from these accounts using specific transfer authority associated with the accounts as long as the transferred funds are used for the purposes established by statute.

<sup>17</sup>DOD, *Financial Management Regulation*, 7000.14-R, Vol. 3, Ch. 6 (March 2011) specifies that reprogrammings or transfers meeting certain criteria require prior congressional approval. For instance, a cumulative increase or decrease of more than \$15 million in a budget activity within an O&M account would require congressional approval. Other specific types of transfers or reprogramming requiring prior congressional approval include uses of general transfer authority, funds for an item designated as being of special congressional interest, funds that would initiate a new start, and funds that would terminate an appropriated program.

**Figure 4: Operation and Maintenance Enacted Funding from Military Services' and Defense-Wide Agencies' Accounts That the Department of Defense Realigned Using Its Authorities, Fiscal Years 2009-2015**



Source: GAO analysis of Department of Defense data. | GAO-16-537

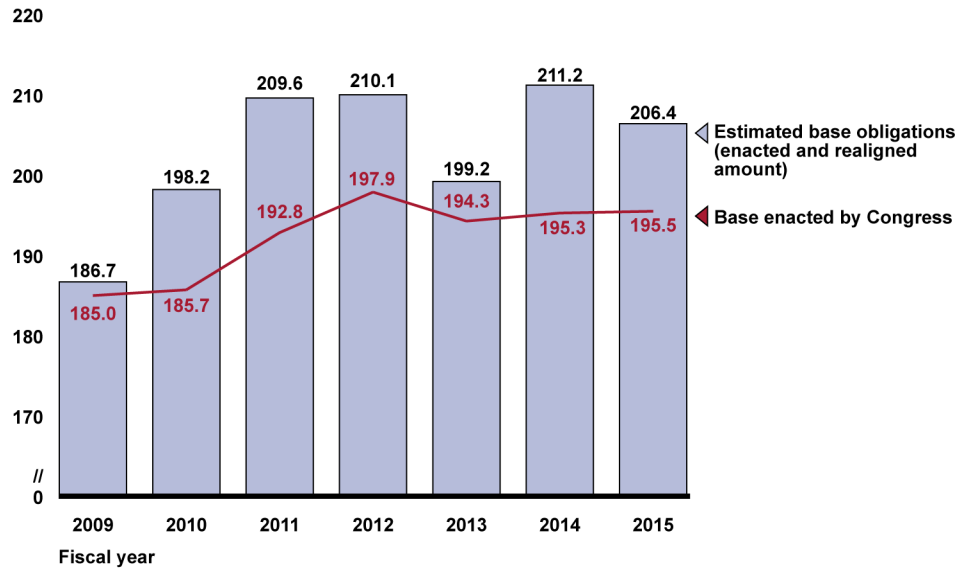
We estimated that after the department used its authorities to transfer funds, DOD's base obligations subsequent to fiscal year 2009 were greater than amounts enacted by Congress for O&M base funding by an annual average of 5.6 percent. During the period of our review, DOD did not report O&M base obligation amounts separately from O&M OCO amounts in its budget justification materials or execution reports; therefore, we estimated base obligations for O&M. We found in 5 of the 7 fiscal years we estimated that O&M base obligations—consisting of enacted and realigned amounts—were 5.6 percent to 8.7 percent greater than congressionally enacted amounts (\$10.9 billion and \$16.7 billion, respectively). The exceptions were fiscal years 2009 and 2013, when DOD obligated 1 percent and 2.6 percent more, respectively, than the enacted amount, even with reductions in fiscal year 2013 resulting from sequestration (see figure 5).<sup>18</sup>

<sup>18</sup>We did not assess whether DOD's base obligations exceeded its total budget authority for O&M base.



**Figure 5: Enacted and GAO Estimated Obligation Amounts for Operation and Maintenance Base Accounts, Fiscal Years 2009-2015**

Nominal dollars in billions



Source: GAO analysis of Department of Defense data. | GAO-16-537

Notes: GAO's estimated base obligations may be above or below the base enacted amount, which does not equal total budget authority available for base operation and maintenance requirements in a given year. We did not assess whether the Department of Defense's base obligations exceeded its total budget authority for operation and maintenance base accounts.

While overall obligations exceeded enacted amounts in each year due to transfers and reprogrammings, we also found that consistent patterns of difference existed within certain categories of spending. Among the military services' accounts (including the active, reserves, and National Guard), we found that after the military services had reprogrammed funds from the amounts designated by Congress,<sup>19</sup> their obligations for O&M base subsequent to 2009 were consistently different from designated amounts for at least 3 consecutive years in 3 out of 11 specific categories

<sup>19</sup>For the military services' O&M accounts, Congress directs amounts at the subactivity group level.

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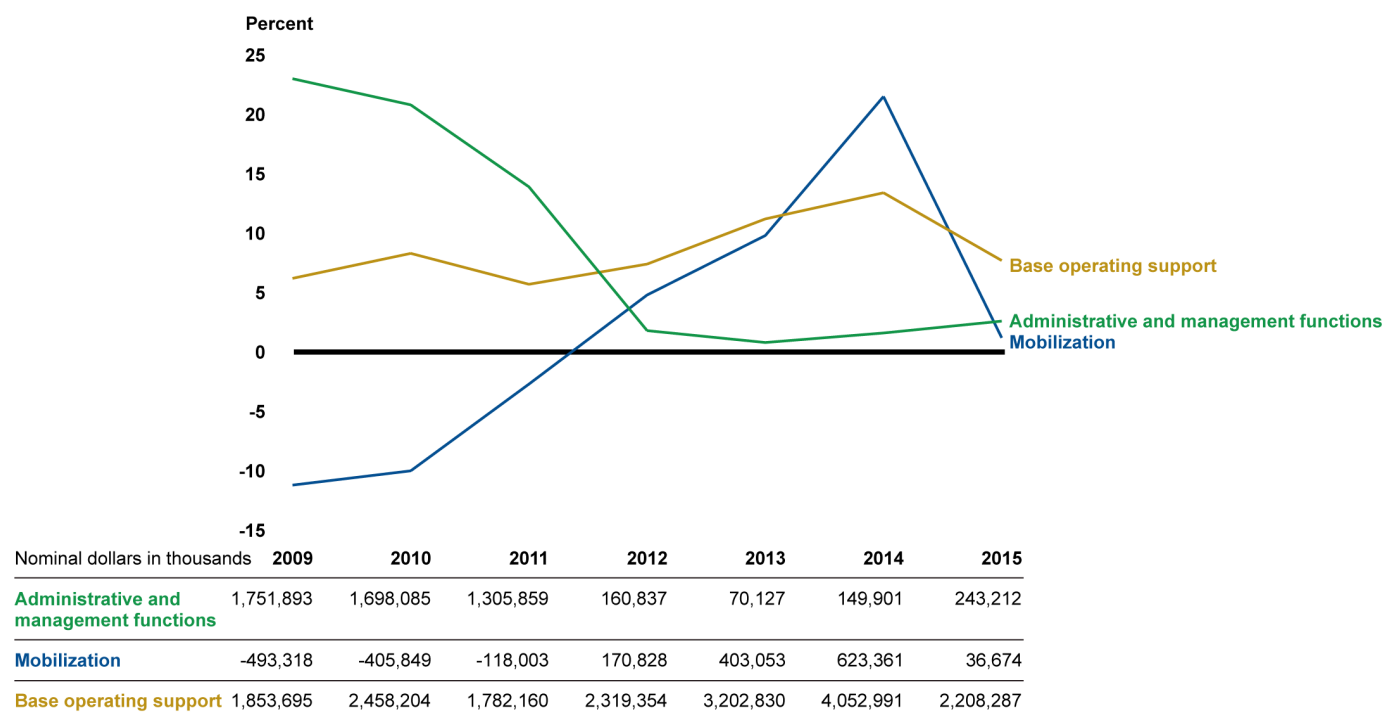
of similar O&M subactivity groups.<sup>20</sup> Specifically, we found, as shown in figure 6:

- **Base Operating Support:** In each fiscal year since 2009 the military services obligated more than Congress designated for the 7-year period collectively by a total of \$17.9 billion.
- **Administrative and Management Functions:** In each fiscal year since 2009, the military services obligated more than Congress designated for the 7-year period collectively by a total of about \$5.4 billion.
- **Mobilization:** Since fiscal year 2012, the military services obligated more than Congress designated for the 4-year period collectively by a total of about \$1.2 billion.

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<sup>20</sup>The categories include: administrative and management functions; base operating support; command, control, and communications; execution year accounts; individual training and education; maintenance and weapons system support; mobilization; operational tempo and training; operations support and transportation; recruiting and advertising; and other. For more information on the 11 categories and our methodology, see appendix I.

**Figure 6: Amount and Percentage Differences between Congressional Designations and Obligation Amounts, by Select Categories of Military Services' Subactivity Groups, Fiscal Years 2009-2015**

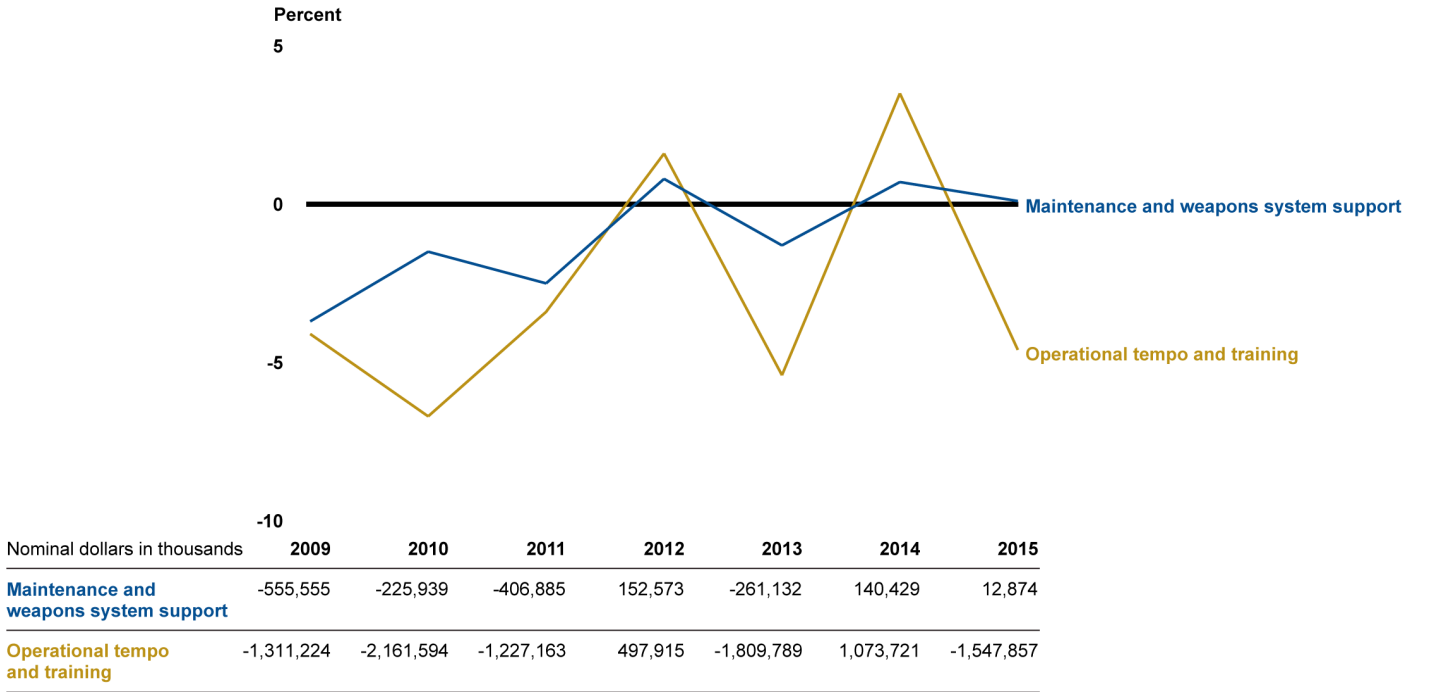


Source: GAO analysis of Department of Defense data. | GAO-16-537

In interviews with OUSD Comptroller officials, we discussed these consistent patterns of differences in obligations as compared with what was designated by Congress. Officials stated that it is often difficult to predict some requirements 2 years before they occur. However, in the area of base operating support, where costs are often more fixed and predictable, officials told us that they reviewed the military services' obligations and became aware in 2015 of the Army's consistent pattern of obligating amounts greater than Congress designated. Officials told us that they have since taken steps to better align the request with the requirement by issuing guidance to the Army to incorporate information on prior spending levels in this area within the budget request for fiscal year 2017. In addition, they discussed that in fiscal years 2011 and 2012 the difference from the designated amount for the Air Force resulted from the use of O&M base funding to support OCO requirements.

In addition, our analysis found that there was no consistent pattern of differences between spending and what was designated by Congress among the two categories of subactivity groups that are most directly related to readiness—maintenance and weapon systems support and operational tempo and training.<sup>21</sup> For these two categories, spending varied most years between under- and over-obligations. In addition, since fiscal year 2014, the largest magnitude of over-obligation has not been in these categories, but in base operating support as previously discussed (see figure 7).

**Figure 7: Amount and Percentage Differences between Congressional Designations and Obligation Amounts by Readiness Related Categories of Military Services’ Subactivity Groups, Fiscal Years 2009-2015**



Source: GAO analysis of Department of Defense data. | GAO-16-537

<sup>21</sup>For additional information on the relationship between readiness and the operation and maintenance spending, see Congressional Budget Office, *Linking the Readiness of the Armed Forces to DOD’s Operation and Maintenance Spending* (April 25, 2011).

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## DOD Reported Obligations to Congress on O&M OCO but Not O&M Base Obligations

DOD has reported its O&M OCO obligations<sup>22</sup> to Congress, but it has not reported its O&M base obligations. Instead, DOD has reported a combination of O&M base and OCO obligations in its O&M base budget justification materials and execution reports. Congressional budget justification materials and O&M execution reports are key documents that help Congress make appropriations decisions, conduct oversight, and provide control over funds. DOD information on O&M base obligations is important in enabling Congress to have a more complete understanding of what costs paid for by DOD's OCO appropriations are intended for base activities. *The FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended* suggests that agencies should provide reliable and timely information on the full costs of their federal programs aimed at assisting congressional and executive decision makers in allocating federal resources and making decisions to improve operating economy and efficiency. In addition, *Standards for Internal Control in the Federal Government* emphasizes using quality and complete information to make decisions and communicate such information externally.

The Senate Appropriations Committee's report accompanying a bill for DOD's fiscal year 2015 appropriations stated that the committee does not have a clear understanding of enduring activities funded by the OCO budget.<sup>23</sup> The committee noted the potential for risk in continuing to fund non-contingency-related activities through the OCO budget. The committee directed the Secretary of Defense to submit a report showing the transfers of OCO funding to the base budget for fiscal year 2016 at the time of the President's budget submission for fiscal year 2017. This request to show transfers of OCO funding to the base demonstrates that having information on base obligations at a detailed level is useful to Congress as it aims to better understand the magnitude of spending for base activities to date and in the future. OUSD Comptroller officials told

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<sup>22</sup>The obligations in the OCO budget justification materials reflect estimated amounts of funds executed to support overseas contingency operations. DOD also provides to Congress on a monthly basis a Cost of War report, which includes estimated amounts of funds obligated to support overseas contingency operations. As such, the annual estimates in the budget justification materials may vary from the annual estimates contained in DOD's Cost of War report as the components make corrections to the estimated obligation amounts in support of overseas contingency operations. Additionally, DOD's Cost of War report is not an auditable financial statement.

<sup>23</sup>S. Rep. No. 113-211 (2015) (accompanying H.R. 4870).

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us that the department has not provided the report because the evolution of threats in U.S. Central Command's area of responsibility creates uncertainty over its enduring missions. We made a similar recommendation in 2014 that DOD develop guidance for transitioning enduring programs and activities funded through OCO appropriations to the base budget request.<sup>24</sup> DOD partially concurred with that recommendation, and in the fiscal year 2016 base budget request the department proposed to outline a plan to complete this transition, beginning in 2017, by 2020. However, according to DOD officials, the department has suspended the timeline to complete this transition due to the mission uncertainty discussed above.

DOD has reported O&M OCO obligations to Congress at the levels of information—that is, budget activity, activity group, or subactivity group level—presented in its O&M OCO budget justification materials by each O&M OCO account. It reported all four military services by active, reserves, and National Guard accounts; defense-wide accounts; and defense health account. However, in its O&M base budget justification materials and O&M execution reports, DOD reported combined obligations for the base and OCO appropriations in each appropriations account that receives both types of O&M appropriations.<sup>25</sup> For example, in fiscal year 2009, we calculated from each account's OCO budget justification materials that DOD's O&M OCO obligations were \$83.9 billion, and DOD reported that in the same period its total O&M obligations were \$270.6 billion. Subtracting O&M OCO obligations from O&M total obligations reveals that O&M base obligations would be approximately \$186.7 billion for fiscal year 2009, as we showed previously in figure 5. While the total level of O&M base obligations can be readily estimated, the effects of the realignment of funds on categories of similar subactivity groups is not so readily apparent. As discussed in the previous section, in some cases there are consistent patterns of over-obligation across certain categories of subactivity groups.

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<sup>24</sup>GAO, *Defense Headquarters: Guidance Needed to Transition U.S. Central Command's Cost to the Base Budget*, [GAO-14-440](#) (Washington, D.C.: June 9, 2014).

<sup>25</sup>O&M accounts that receive appropriations for base and OCO activities include the active, reserves, and National Guard accounts of the four military services, defense-wide, defense health, and the DOD Office of Inspector General.

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According to OUSD Comptroller officials, DOD components track obligations by base and OCO appropriation, but DOD's *Financial Management Regulation*—issued by the OUSD Comptroller—does not require the department to report to Congress on O&M base obligations at the levels of information presented by account in its base budget justification materials and execution reports.<sup>26</sup> Additionally, the officials stated that Congress has not asked the department to report O&M base obligations separately from OCO obligations.

Military service officials confirmed that they track both base and OCO O&M obligations in their financial accounting systems and provide the OCO obligation information to OUSD Comptroller for reporting purposes. However, when we asked the OUSD Comptroller officials if they could include O&M base obligations in their budget justification materials and execution reports, the officials stated that it would be resource-intensive to report O&M base obligations separately from O&M OCO at the level of information presented for each account because the information is not integrated into one common financial accounting system. Instead, the military services currently use different accounting codes in their individual financial accounting systems to track base and OCO obligations. When we discussed manually estimating O&M base obligations with OUSD Comptroller officials as we had done, they acknowledged that they have used an approach similar to ours for internal estimates of O&M base obligations for total O&M, total account, and lower-level account information.

Since 1995, our work on risk to federal government operations has included DOD's financial management as an area of high risk because it lacks accurate, timely, and useful information, among other things, that have limited DOD's ability to ensure basic financial accountability, to prepare auditable financial statements, and to make sound decisions affecting the department's operations. Evaluating how DOD currently collects cost information on base activities in connection with ongoing efforts to improve financial systems to address these limitations could help the department identify ways to more consistently and efficiently capture and report this information in the future. Until DOD revises its

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<sup>26</sup>DOD Financial Management Regulation directs statutory and regulatory financial management requirements, systems, and functions for all appropriated and nonappropriated, working capital, revolving, and trust fund activities. See DOD, *Financial Management Regulation*, 7000.14-R (June 2011).

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guidance to require reporting of O&M base obligations at the level of information presented for each account in its budget justification materials and execution reports, Congress will not have complete information to better understand DOD's full funding needs for its O&M base programs and activities and to oversee the O&M budget.

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## Conclusions

Although operation and maintenance accounts are the largest category of DOD's appropriations, DOD does not report O&M base obligations to Congress separately from O&M OCO obligations in its budget justification materials and O&M execution reports. It currently has the means to collect this information for internal purposes. Further, as the department works to improve its financial systems to achieve financial auditability, DOD has the opportunity to begin collecting consistent information more efficiently in this area of its budget across the department's various organizations. In light of federal accounting and internal control standards, agencies should inform Congress on the full costs of their programs to assist with allocating federal resources and conducting oversight. DOD could do this by requiring the inclusion of O&M base obligations at the level of information presented in each account's reports to Congress.

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## Recommendation for Executive Action

To ensure that Congress will have more complete information on DOD's full funding needs for its O&M base budget and to conduct oversight of DOD's use of OCO funds to support base programs and activities, we recommend that the Secretary of Defense direct the OUSD Comptroller to revise its guidance on preparing budget justification materials and execution reports for Congress to require the addition of O&M obligations used for base programs and activities at the level of information presented for each account.

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## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its written comments, which are summarized below and reprinted in appendix II, DOD did not concur with the recommendation.

In its written comments, DOD noted that many of its financial accounting systems currently in use cannot distinguish between O&M base and OCO obligations easily, and that due to limited resources as a result of headquarters reductions, the requirement to manually identify these obligations in O&M budget justification materials and quarterly O&M execution reports will be extremely labor intensive. DOD further noted



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that once all DOD components convert from these financial accounting systems, the department should be able to report O&M base and OCO obligations consistently and effectively.

For over two decades, we have recognized and brought attention to DOD's reliance on financial accounting systems with significant weaknesses. In addition, we have consistently acknowledged that the reliability of DOD's financial information will be increasingly important to the federal government's ability to make sound resource allocation decisions. While DOD is in the process of implementing various enterprise resource planning systems to improve its financial accounting departmentwide and implement an audit ready systems environment, as required by Congress, we also recognize that DOD's continued efforts will take time.<sup>27</sup>

However, in the interim, the revision we recommended to DOD's guidance would help to establish the consistent reporting of O&M base and OCO obligations once those enterprise resource planning systems are in place. Specifically, revised guidance for preparing congressional budget justification materials and execution reports to require the addition of O&M base obligations for each O&M account would position DOD components to report O&M base obligations uniformly using their new systems. Given this, we continue to believe that implementing the recommendation would make more complete information available to Congress on the amount of funds DOD is obligating for its day-to-day programs and activities, and reflect the department's full funding needs for its O&M base budget.

DOD provided additional information in its comments as to the specific reasons its current financial accounting systems cannot easily distinguish between O&M base and OCO obligations, and how it reports O&M total and OCO obligations to Congress rather than O&M base obligations at the level of information presented for each account. As discussed in this report, implementing this recommendation would provide Congress with more detailed information about DOD's O&M budget. DOD also provided technical comments, which we incorporated into the report, as appropriate.

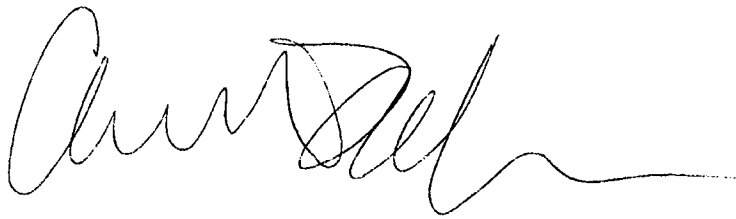
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<sup>27</sup>GAO, *HIGH-RISK SERIES: An Update*, GAO-15-290 (Washington, D.C.: Feb. 11, 2015).

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We are sending copies of this report to the appropriate congressional committees, and to the Secretary of Defense, Secretary of the Army, Secretary of the Air Force, and Secretary of the Navy. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (213) 830-1011 or [vonaha@gao.gov](mailto:vonaha@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read 'Andrew J. Von Ah', with a long horizontal flourish extending to the right.

Andrew J. Von Ah  
Acting Director, Defense Capabilities and Management

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# Appendix I: Scope and Methodology

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Senate Report 114-49 accompanying a proposed version of the National Defense Authorization Act for Fiscal Year 2016,<sup>1</sup> includes a provision for GAO to evaluate the effects of budgetary constraints on DOD's available base funding within the O&M appropriations accounts. This report: (1) identifies the trends in enacted and planned funding for DOD's O&M base appropriations since fiscal year 2009; (2) describes the amount of O&M funding DOD has transferred or reprogrammed, and the effect of this realignment on O&M base obligations; and (3) evaluates the extent to which DOD reported to Congress its O&M obligations for its base and OCO budgets.

To identify the trends in enacted base funding for DOD's O&M accounts since fiscal year 2009, we analyzed data on enacted<sup>2</sup> funding from DOD's budget justification materials from fiscal years 2009 through 2016. We began with fiscal year 2009 because it was the first year after the surge in both Iraq and Afghanistan and would provide us with a 7-year period of data. All enacted funding amounts are in nominal dollars as presented in the budget materials. In addition, we interviewed officials from the Office of the Under Secretary of Defense (OUSD) Comptroller and the military services' financial management offices about O&M base funding. In some years the budget justification materials were produced while DOD was operating under a continuing resolution and contain an estimate of funding under the continuing resolution. We verified the enacted data with OUSD Comptroller officials to ensure that the data reflected enacted amounts that were also reported to Congress after a defense appropriation act in the annual Base for Reprogramming Actions report.<sup>3</sup> OUSD Comptroller provided revised amounts on enacted funding as appropriate. We determined that the enacted funding amounts were sufficiently reliable for the purposes of this audit with attribution to DOD.

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<sup>1</sup>Enacted as the National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92 (Nov. 25, 2015).

<sup>2</sup>We use the term "enacted" to refer to DOD's authorized adjustment of amounts appropriated to reflect designations by Congress at the appropriations account's activity level. Congressional designations appear in an appropriations act's accompanying conference report or explanatory statement. The enacted amount reflects undistributed adjustments, which are additions or cuts made by Congress to the appropriations' total amount that are not designated to a particular activity level; the effect of general provisions; and other congressional directions as articulated in statute.

<sup>3</sup>The DD1414 is the report that DOD submits to Congress to establish the baseline from which it will make reprogramming and transfer proposals.

To identify how DOD's base funding plans for O&M compared with its enacted funding levels since fiscal year 2009, we analyzed data specific to O&M from DOD's Future Years Defense Program summary tables. We compared information from each 5-year plan—the budget year and total for the 5 years—with the enacted funding information previously discussed. We also compared each 5-year plan with the previous plan to describe the changes between plans since fiscal year 2009. We reviewed documentary information and interviewed officials from Cost Assessment and Program Evaluation and OUSD Comptroller on the Future Years Defense Program about the changes in plans since fiscal year 2009. We verified the data on planned funding amounts with OUSD Comptroller officials. All enacted funding amounts are in nominal dollars. We determined that the data were sufficiently reliable for the purposes of this audit with attribution to DOD and the source document.

To identify trends in other base funding available, we corroborated data provided by the OUSD Comptroller officials with information in the defense appropriations acts and defense appropriations joint explanatory statements. All funding amounts are in nominal dollars. We determined that the data on other funding available were sufficiently reliable for the purposes of this audit with attribution to DOD.

To describe how DOD has realigned O&M funds between O&M and other appropriations through transfers, and within accounts through reprogrammings, since fiscal year 2009, we analyzed data from DOD's 4th Quarter O&M execution reports from fiscal years 2009 through 2015 to determine the extent to which DOD transferred and reprogrammed O&M base and OCO funding.<sup>4</sup> Our analysis goes through fiscal year 2015, as this was the last full year of data during our review. We calculated the value of funds realigned between and within the military services' and defense-wide O&M accounts by two categories reported in the execution reports—prior approval transfers and reprogrammings, and below threshold reprogrammings. Funds realigned out of accounts are presented as negative numbers in DOD's execution reports. We used the absolute value of the negative numbers to account for the total amount of the realignment. We provided the amounts obtained from the execution reports with OUSD Comptroller officials to verify the accuracy of the information. Next, we calculated the total enacted O&M funding reported

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<sup>4</sup>DOD's O&M execution reports present data that combine O&M base and OCO funding.

in the execution reports for the military services' and defense-wide accounts and determined the percentage of the enacted O&M funding that DOD reported moving.<sup>5</sup> We also interviewed OUSD Comptroller and the military services' financial management officials to understand DOD's process for transferring and reprogramming funds, including any notifications to Congress about them. All fund realignment amounts are in nominal dollars, and we determined that the data were sufficiently reliable for the purposes of this audit with attribution to DOD and the source document.

To understand the differences between DOD's base obligations and the amounts that Congress designated for base O&M programs and activities, we estimated O&M base obligations because DOD is not required to report this information in its budget justification materials or execution reports separately from O&M OCO obligations, and had not reported the amounts. To estimate O&M base obligations for the O&M title, we compiled and summed O&M OCO obligations reported in the budget justification materials for each O&M base account. We then subtracted the O&M OCO obligations from the total O&M obligations reported in the O&M O-1 budget exhibit, which provides aggregate details on O&M obligations. We verified the OCO and total O&M obligation data with OUSD Comptroller officials. We compared estimated O&M base obligations with the enacted funding information previously discussed.

Further, to understand the differences between O&M base obligations and congressional designations<sup>6</sup> for aggregate categories of similar subactivity groups within the military services' O&M base accounts, we compiled congressional designations, O&M total, and O&M OCO obligations by each of the subactivity groups from the military services' O&M budget justification materials. To normalize obligations for the items that were not enacted in the military services' O&M base accounts but

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<sup>5</sup>The "enacted" amounts reported in the 4<sup>th</sup> Quarter O&M execution report refer to DOD's authorized adjustment of amounts appropriated to reflect designations by Congress at the appropriations account's activity level. The enacted amount reflects undistributed adjustments, which are additions or cuts made by Congress to the appropriation's total amount that are not designated to a particular activity-level; the effect of general provisions; and other congressional directions as articulated in statute.

<sup>6</sup>Congressional designations appear in an appropriation act's accompanying conference report or explanatory statement and are not binding unless they are also incorporated by reference into an appropriations act or other statute.

were appropriated to other accounts and authorized to be transferred to the military services' O&M base accounts for execution, we obtained data from the military services by subactivity group. Specifically, we obtained data on transfers from the Environmental Restoration and Drug Interdiction and Counterdrug Activities appropriation that were transferred into the military services' accounts. Next, to estimate O&M base obligations, we subtracted O&M OCO obligations and obligations associated with Environmental Restoration and Drug Interdiction and Counterdrug Activities transfer amounts from total O&M obligations. We grouped the unclassified subactivity groups from the military services' O&M budget justification materials into 11 broad categories of similar activities used in our prior sequestration work based on the activities and functions of each subactivity group (see table 1).<sup>7</sup> To ensure that the budget categories and the placement of subactivity groups therein were valid, we shared our updated approach with officials from OUSD Comptroller, who did not make any suggested revisions.

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<sup>7</sup>GAO, *Sequestration: Documenting and Assessing Lessons Learned Would Assist DOD in Planning for Future Budget Uncertainty*, [GAO-15-470](#) (Washington, D.C.: May 27, 2015).

**Table 1: Categories and Descriptions of Activity Groups within the Military Services' Operation and Maintenance Accounts**

Category	Description of Subactivity Groups
Administrative and Management Functions	Administrative and personnel support functions; combatant command core operations; headquarters management functions; international agency support
Base Operating Support	Base operations; facilities, sustainment, restoration, and modernization; security programs provided on bases
Command, Control, and Communications	Information technology support; electronic warfare; meteorology and oceanography
Execution Year Accounts	Defense environmental restoration account; foreign currency fluctuations; canceled and closed account adjustments
Individual Training and Education	Professional development; individual specialized skill training; reserve officer training corps
Maintenance and Weapon Systems Support	Depot and other maintenance; ammunition management; cruise and ballistic missiles; other weapons support functions
Mobilization	Prepositioned stocks; airlift operations (e.g., aircrew training activities); activations and inactivations; industrial preparedness
Operational Tempo and Training	Air operations, ship operations, and land forces operations; (i.e. subactivity groups that fund collective training activities); field level maintenance; direct mission support to the combatant commands
Operations Support and Transportation	Combat support forces; mission and force readiness support operations; transportation (e.g., movement of materiel)
Recruiting and Advertising	Accessions; recruiting and advertising; junior reserve officer training corps
Other	Subactivity groups that are not addressed in the other 10 categories

Source: GAO analysis of Department of Defense information. | GAO-16-537

We then compared the congressional designations with estimated O&M base obligations for the 11 aggregate categories of similar subactivity groups within the military services' accounts to determine the amount and percentage of difference in the same direction. We identified consistent patterns of difference, defined as at least three consecutive years with a difference. All amounts are in nominal dollars, and we determined that the data were sufficiently reliable for the purposes of this audit with attribution to DOD and the source.

Lastly, to evaluate the extent to which DOD reported O&M base and OCO obligations to Congress, we reviewed the data presented in DOD's budget justification materials and execution reports to identify the type of information available. We also reviewed DOD's Financial Management Regulations and congressional committee report language and interviewed OUSD Comptroller officials to obtain information on the organization of the budget justification materials. We reviewed this information in light of federal internal control and accounting standards

that outline how information should be recorded and communicated to management and others.<sup>8</sup>

We conducted this performance audit from August 2015 to August 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>8</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov 1999). These standards were in effect prior to fiscal year 2016 and cover the time period of DOD's data. The standards were subsequently updated. The updated standards went into effect on October 1, 2015. See GAO, *Standards for Internal Control in the Federal Government*, GA0-14-704G (Washington, D.C.: Sept. 10, 2014). See Federal Accounting Standards Advisory Board, *The FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts (June 30, 2015).



# Appendix II: Comments from the Department of Defense



COMPTROLLER

(Program/Budget)

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

July 29, 2016

Mr. Andrew Von Ah  
Acting Director  
U.S. Government Accountability Office (GAO)  
441 G Street NW  
Washington, DC 20548

Dear Mr. Von Ah:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO 16-537, "DEFENSE BUDGET: DoD Needs to Improve Reporting of Operation and Maintenance Base Obligations," dated June 2, 2016 (GAO Code 100262).

The Department of Defense does not concur with the recommendation to revise its guidance on preparing budget justification material and execution reports for Congress to require the addition of Operation and Maintenance base obligations for each account. Many legacy financial systems currently in use cannot distinguish between baseline and Overseas Contingency Operations (OCO) execution easily. Once all Components convert from legacy financial systems, the Department will be able to consistency and effectively report base and OCO obligations across all appropriations. Enclosed is a more detailed response along with some technical comments associated with the draft report.

My point of contact for any questions is Ms. Sara Russell at (703) 697-2559 or [sara.l.russell.civ@mail.mil](mailto:sara.l.russell.civ@mail.mil).

Sincerely,

A handwritten signature in blue ink, appearing to read "f sh", is written over the printed name of Monique L. Dilworth.

Monique L. Dilworth  
Director for Operations

Enclosure:  
As Stated

**GAO DRAFT REPORT DATED JUNE 2, 2016  
GAO-16-537 (GAO CODE 100262)**

**“DEFENSE BUDGET: DoD Needs to Improve Reporting of Operation and Maintenance  
Base Obligations”**

**DEPARTMENT OF DEFENSE COMMENTS**

**TO THE GAO RECOMMENDATION**

The GAO recommends to assist Congress in its oversight of the Operation and Maintenance (O&M) budget, the Department of Defense (DoD) revise its guidance on preparing budget justification materials and execution reports for Congress to require the addition of O&M base obligations for each account.

Response: Nonconcur with recommendation. Implementing this recommendation would be very difficult and labor intensive for several reasons:

1. Many legacy financial systems currently in use cannot distinguish between baseline and OCO execution easily. Once all Components convert from legacy financial systems, the Department should be able to report obligations for base and OCO programs across all appropriations consistently and effectively.
2. When the Congress enacts O&M funding for both baseline and Overseas Contingency Operations (OCO) programs, it merges the funding into a single appropriation for each Component.
3. The Congress appropriates funding for base program requirements in both Title II Operation and Maintenance and Title IX Overseas Contingency Operations/Global War on Terrorism O&M (e.g., congressional transfers from base to OCO). A supplemental OCO O&M appropriation (i.e., Title IX Overseas Contingency Operations/Global War on Terrorism) is not a legal or administrative subdivision of the O&M appropriation.
4. The OCO execution reported in the O&M OCO budget justifications reflects “Cost of War” execution data, which includes both OCO and baseline obligations used for war efforts. The “Cost of War” is a monthly report provided to congressional committees.
5. Monthly execution reports (e.g., SF-133 Report on Budget Execution and Budget Resources and AR 1002 Appropriation Status by Fiscal Year Program and Subaccounts) from the Defense Finance and Accounting Service (DFAS) do not delineate between O&M base and OCO execution. The Department is required to report total obligations by appropriation per the Office of Management and Budget (OMB) Circular A-11 as well as 31 United States Code § 1511 through § 1514 and § 1554.
6. Due to limited resources as a result of headquarters reductions, the requirement to manually separately identify base and OCO execution in O&M budget justification materials and quarterly O&M execution reports will be extremely labor intensive.

Technical comments to the draft report are provided on the next page.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Andrew J. Von Ah (213) 830-1011 or [vonaha@gao.gov](mailto:vonaha@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Tina Won Sherman (Assistant Director), Tim Carr, Susan C. Langley, Amie Lesser, Felicia M. Lopez, Kristiana D. Moore, Steve Pruitt, Richard Powelson, and Michael D. Silver made key contributions to this report.

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